

House Committee on Financial Services: Oversight and Investigations
Subcommittee
Hearing on Insurance Claims Payment Processes in the Gulf Coast after the 2005
Hurricanes

February 28, 2007
Statement of Representative Bobby Jindal

Chairman Watt, Ranking Member Miller, and Financial Services Committee members --- Thank you for providing me the opportunity to testify before your Committee.

Eighteen months ago, in August and September 2005, Hurricanes Katrina and Rita devastated the Gulf Coast region of the United States, including large land areas in my home state of Louisiana. In the Southern portions of Louisiana, the storm surge swept across the coastal areas, causing extensive property damage. In my Congressional district and in the City of New Orleans, levees failed and flood waters swamped homes and businesses for several weeks before the water was finally pumped back into Lake Pontchartrain.

Hurricane Katrina was the most significant natural or man made disaster to affect the United States. The effects of the hurricane completely destroyed and made uninhabitable an estimated 300,000 homes. This far surpasses the residential damage of Hurricane Andrew, which destroyed or damaged approximately 80,000 homes in Florida in 1992. It also exceeds the combined damage of the four major 2004 hurricanes, Charley, Frances, Ivan, and Jeanne, which together destroyed or damaged approximately 85,000 homes. The federal government aided businesses and individuals struggling to purchase terrorism insurance after the September 11th terrorism attacks and the people of Louisiana deserve the same help. With more than fifty-three percent of our country's population living in the 673 coastal counties and parishes, it is critical that we provide insurance to these areas.

In many coastal areas, insurance prices are a growing problem because of steadily rising rates. For South Louisiana and several of the Gulf States -- we are in the midst of an insurance crisis. Louisianans are still haggling with insurance companies over settlements and payments a year and a half after the storms -- these are problems that are typically resolved within three months after a natural disaster strikes.

Even further, homeowners and businesses are unable to rebuild because of high premiums and difficulty in obtaining insurance altogether. Since the 2005 hurricanes, many homeowners' policies in the greater New Orleans area have gone up more than fifty percent and insurance costs have gone up an average twelve percent statewide. Obtaining insurance is difficult because only a handful of companies are writing property insurance in the state. In fact, ten of the top twenty-five property insurers do not do business in the state. Those companies that remain are striding to eliminate hurricane coverage from their portfolio. There are also media reports that insurance companies are attempting to cancel insurance policies of those who were not even affected by flood or wind damage caused by the 2005 hurricanes. In short, Louisianans are paying more for less insurance (if they can get it) which is hampering recovery from the storms.

State Farm Fire and Casualty Company, the largest residential insurer in Louisiana with about thirty-two percent of the market, has stated that it will not write new hurricane coverage -- also known as wind and hail insurance policies -- in south Louisiana. Allstate, which accounts for twenty percent of all the homeowners' policies and has been the state's second largest provider of insurance, is implementing a statewide five percent deductible on hurricane coverage. According to news reports, Allstate does not plan to write new hurricane protection policies in much of Louisiana. The state's Commissioner of Insurance is also investigating allegations that the company is arbitrarily canceling homeowner policies in the state. Louisiana Citizens Property Insurance Corporation, the state-run insurer of last resort and currently the third largest insurer, is writing more policies than ever before. The company writes 1,000 policies per day and expects to write between 60,000 and 200,000 over the next year. But, premiums attached to their coverage are costly. Without competition from the private sector, market forces are not working to drive down insurance rates. The bottom line is that extraordinary high insurance premiums will put mom and pop shops or the young entrepreneur permanently out of business and people in South Louisiana will simply not be able to afford to rebuild.

The insurance crisis in Louisiana can be explained as a classic chicken-and-egg problem: if a property-owner rebuilds, in accordance with federal law, he must obtain

property insurance before settling on the property with a loan from a mortgage company. But South Louisianans are having difficulty obtaining insurance needed to go to settlement because companies are refusing to issue new policies in this area.

This was the recent experience of an insurance salesperson from New Iberia, Louisiana who was left scrambling to find homeowner's insurance within two weeks of transferring her homeowner policy to a house she had just finished building. Because her wind and hail hurricane coverage was canceled, the mortgage company that financed the construction of her new home threatened to make her return the loan money unless she obtained a new hurricane policy. As an industry insider she was familiar with every company that writes homeowners' insurance in Louisiana -- she was rejected by all but Citizens. While she was lucky to obtain insurance to go to closing on her new home, her premiums increased from \$900 to \$3,000 a year for the same coverage she had bought two weeks before.

Furthermore, in certain situations policyholders are being dropped from insurance companies because they haven't held a policy with the company on the same property for a certain number of years. Imagine a case where John Doe has been a customer of insurance company A for 25 years. Year after year John Doe faithfully paid his insurance premiums without ever filing a significant claim. Two years ago, John Doe transferred his policy when he purchased a new home and is now being told by insurance company A that he is being dropped because the policy is "too new."

Though exact numbers are hard to predict, experts anticipate that in 2007, roughly four policyholders in every ten will find themselves in the same boat as John Doe and searching to find insurance that covers hurricane damage. This is because as of January 1, 2007, post-hurricane restrictions on insurance companies were lifted and insurance companies are now able to start the process of canceling wind and hail coverage for policies less than three years old. The remaining sixty percent of homeowner policies in Louisiana cannot be dropped because the homeowner bought their insurance more than three years ago and under state law, those policies cannot be changed.

On the commercial side, extraordinary insurance rates are equally an impediment to rebuilding. For example, a locally-based real estate development company, HRI

Management, has a portfolio with properties worth around \$200 million. Before Katrina, the company's coverage cost \$500,000 and included a one percent deductible or roughly \$100,000 per property. Two days before the policy's renewal date, the insurance company told HRI the new policy would be \$2.5 million, include a five percent deductible and provide only \$50 million in hurricane coverage. Without competition in the insurance industry, the company has limited choices: put up with absurd premiums that offer little coverage, risk forgoing insurance altogether if the properties are not financed by a bank loan, or move the business to another location where insurance is not a scarce and unaffordable commodity.

We must ensure that the residents of our state have access to reasonably priced insurance, and are not forced to live uninsured due to insurance companies exponentially raising their rates. For example, many of the residents in St. Martin Parish whose homes were destroyed by a tornado right after Valentine's Day had recently dropped their homeowner's insurance due to the rising insurance costs after Hurricanes Katrina and Rita. As reported in one local paper, a 90-year-old widow on a fixed income and who owned her home outright was faced with just that dilemma - pay for food, medicine and other needs or use that money to pay her increasing insurance premiums. She chose the former and now must rebuild her home after it was destroyed by the tornado without the help of insurance. That is absolutely unacceptable, and something has to change.

I would like to leave the Committee with one last thought. Insurance companies argue that it is simply too risky to issue policies in South Louisiana and coastal areas threatened by harm from future hurricanes. I must point out that had the levees in Southeastern Louisiana been built to withstand the magnitude of a category 3 hurricane as Louisianans had been led to believe, the area would not have sustained the extensive property damage that was inflicted after Hurricane Katrina passed. The scope of property damage in Southeastern Louisiana can be attributed to the failure of the levees in New Orleans -- not from the hurricane itself.

There is an understandable concern on the part of insurance companies to manage portfolios in a manner that balances their exposure to claims in so called "high-risk" areas with so called "safe policies" that in all likelihood will not result in significant claims being

paid. This helps ensure long-term solvency and stability in the insurance market which is in everyone's best interest. However, in 2006, while insurance companies are defending their decision to not issue new hurricane policies in Louisiana because, if they are to be believed, they cannot afford to enter this market, insurance companies were delivering a record \$44.8-billion in profits even after accounting for the claims of policyholders wiped out by Hurricanes Katrina and Rita. And, from 1999 through 2005, the insurance industry saw its profits nearly double, from \$22.2 billion in 1999 to \$43 billion in 2005, while adding almost \$100 million to its surplus reserves. It does not seem right that insurance companies are making record profits while Louisiana residents cannot afford their premiums.

The residents of our state have already been through so much in the last 18 months, and it is unacceptable to ask them to triple or quadruple their insurance costs when so many are still rebuilding their lives. We cannot rebuild our state unless people move back to the area, and this will be a challenge if insurance costs remain as high as they are now. We cannot reasonably expect people to return home when they cannot even afford to live in and invest in preventative measures for their own homes.

While we cannot go back in time to fix the present, we can take steps to brighten the future. I applaud this Committee and the members of this panel for undertaking an examination of insurance practices in the Gulf Coast in the aftermath of Hurricanes Katrina and Rita.